SELECTED ISSUES ON PERSONAL INCOME AND PROPERTY TAXES

Proposals to increase government revenue and improve governance without penalizing compliant taxpayers

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Policy Brief

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1. Background

Over last several decades, I had addressed numerous tax-related issues, not all of which have been paid heed to by the policymakers, nor by the fiscal administration. More recently, during late 2025, I was fortunate to be nominated as a member of the National Task Force on Restructuring Tax System (NTFRTS). While the affiliation provided an opportunity to dig deep into new issues and pick on others' brains, I chose to stand aside from the final ownership of the produced document since I failed to appreciate biases in some fundamental positions. Drawing upon my earlier writings in print media[1] and notes prepared for the NTFRTS; I put forward a few proposals pertaining to personal income and property taxes. Other than introductory mentions, the broader philosophical issues and thoughts on restructuring the tax system are not addressed here.

2. Three guiding principles

I do sincerely hope that the National Board of Revenue (NBR) prioritizes (and policymakers appreciate) three broad considerations to assess existing (rules and) practices and rationalize proposals. These are,

1. We take cue from the simple formula, TR = t x B, that is, Tax Revenue is equal to (average) tax rate (t) multiplied by Tax-Base (B). Amidst non-compatible objectives and trade-offs, it is proposed that we focus primarily on ways to increase the Base and discuss rates only where lowering the rate will increase the base sufficiently to increase tax revenue (net of additional cost of collection).
2. Increase Voluntary Compliance by introducing (or abandoning) practices and rules that reduce (or increase) hassles to the taxpayers and by making tax assessors/collectors accountable. This cuts across institutional culture and practices shaped by the quality and motivation of existing staff, extent of

[1] See, An ex-ante Assessment of Property/Wealth Tax in Bangladesh (ERG/IGC, 2012), Observations on the proposed 'wealth' tax (Daily Star 7 May 2011), Rethinking Tax Collection (New Age, সম্পদ কর: জানা কথার পুনরাবৃত্তি (প্রথম পর্ব), বণিক বার্তা (মে ০৩, ২০২৩)।

arbitrariness/discretion in decision-making rooted in the laws and rules, especially on appeals & audits.

3. Finally, we look for ways to *increase tax revenue by reducing 'Leakage'*, to be defined in appropriate contexts. While NBR and multilateral lending agencies prefer to focus on the so-called 'Tax Expenditure', that is, estimated revenue foregone due to inadequate coverage under the tax net and tax/tariff reliefs given to various sectors, 'Leakage'-based search for ways to increase tax revenue is perceived more appropriate in countries like Bangladesh (See Section 5 below).

3. Need to investigate the potential of increasing Non-Tax Revenue (NTR)

Two reasons for looking for ways to increase revenue from NTR sources are,

(i) there are limits to raising Tax/GDP ratio given the structure of Bangladesh economy (see section 4), and

(ii) corruption and misgovernance go together with unearned transfer of public resources to individuals and are directly linked to 'unrealized' NTR (by the government).

In neighboring countries, non-tax revenue includes dividends from state-owned enterprises, interest from government loans, fees for licenses and other services, fines, and royalties from natural resources. About 15-17% of total revenue comes from such sources. In Bangladesh, this figure is only 7-8%.

I broadly categorize non-tax revenue into three types:

a. Revenue from state-owned enterprises, such as dividends from enterprises or interest from government loans/investments;

b. Revenue generated from services provided by government agencies, including various fees and fines;

c. Revenue generated from leasing/renting or selling government and government-controlled assets.

A quick assessment would reveal that in all three cases, the price of services and/or potential revenue from those resources are grossly under-estimated/reported to divert the benefits from exchequer to a small group of individuals or business-groups. Among the beneficiaries are administrators and political elites, as well as ordinary departmental employees and certain private interest groups. This potential non-tax revenue often does not reach the government treasury, fostering corruption and extortion, which, in my

view, is one of the barriers to good governance. It is no wonder that the powerful ones[2] are reluctant to increase non-tax revenue. Increasing revenue in these sectors could help reduce the distance (and conflict) between the government and ordinary citizens, particularly through the sale of services and resources using transparent and efficient information technology.

If there is a change in mindset, an initial audit of government assets, dispersed under various departments and accounting heads, should be conducted to ensure their proper use, leading to an increase in government revenue. International lender organizations have often emphasized on identifying potential sources of revenue at local government (city corporation and municipality) levels, but such initiatives are absent at the national level. Potentials for raising revenue from such sources as, roads, railways, ports, rivers, and special zones, should be explored to increase revenue, and these should be incorporated in budget discussion. The issue of revenue from natural gas extraction and distribution contracts remains unclear to this day. If these sources of revenue are recorded in the books of semi-governmental or autonomous institutions, they should be included in non-tax revenue data.

4. Limits to Increasing Tax-GDP Ratio: expand the base without increasing the rates

There is ample evidence to suggest that high/exorbitant tax rates do not necessarily lead to high Tax/GDP ratio. If sources of tax revenue were commensurate with income (GDP) generated by various segments of the society/economy, high tax rates would imply high Tax/GDP ratio. The current tax system in Bangladesh provides reliefs to three important economic activities, namely, RMG sector, remittances and the agriculture, which together account for more than 26.13% of GDP. One may therefore assume that rest 73.87% of GDP constitutes the potential taxbase, and at any time, only a percentage of that base is brought under the tax-net.[3] Table 1 shows the achievable Tax/GDP ratios under various mixes of average tax rates and % (coverage) of the tax-base brought under the tax net.

[2] Financial power is rooted in the diversion of resources away from the exchequer to own pockets.
[3] Actual percentage may be lower if the share of service sector is increasingly under specialized agencies which may not be fully accountable to the tax authorities.

Table 1: Hypothetical Tax/GDP when 73.87% of Total GDP constitute Taxbase

Average tax rate	% of left-out tax base under tax net	Tax/GDP
10%	80%	5.9%
	100%	7.4%
15%	60%	6.6%
	70%	7.8%
	80%	8.9%
20%	50%	7.4%
	70%	10.3%
	90%	13.3%
25%	50%	9.2%
	60%	11.1%
	70%	12.9%
	80%	14.8%
	90%	16.6%

A few observations:

(i) Bangladesh is possibly hovering in the range defined by the two shaded rows: an average tax rate of 15 to 20%, with 60 - 50% of the relevant base brought under the net and generating a 7.4% Tax/GDP.

(ii) Unless skewed progressive taxes are sought, average rates cannot be raised.

(iii) The hypothetical exercise also suggests that caps on withholding taxes on income in Bangladesh, of foreign nationals, should be no less than 15% (preferably, more). The 10% cap for FTS in the India-Bangladesh DTAA (Article 11.2, 12.2 & 13.2 – Dividends, Interests & Royalties) and in KSA-Bangladesh DTAA (Articles 10.2 & 12.2 – Dividends & Royalties) is substantially below Bangladesh's ordinary domestic tax aspirations.

(iv) Expanding the taxbase into the favored activities (26.13%) may not be desirable soon – since incentives are provided to all three activities mentioned.

(v) Heuristic targeting of Tax/GDP ratio will lead to distorted intervention design, and it is important to critically examine all such proposals coming from partners at home and abroad.

Even with exclusive focus on Tax/GDP ratio, where GDP captures incomes (value additions) generated within the country only, an exercise with growth figures suggests that the achievable limit to the ratio is constrained primarily by the structure of the economy. That is, even if the tax system is optimally restructured, tax as percentage of GDP may at most be increased from 7% to 11% in next 5 to 10 years. It is important to recognize that an economy that relies heavily on remittance from overseas employment and export earning from labor-intensive manufactures, both of which are incentivized for (possibly) the wrong reasons, and in a country where the political imperatives dominate to keep food prices low and therefore keep agriculture out of tax-net, one cannot envisage achieving a high tax/GDP ratio in foreseeable future!

5. Let our thoughts not be shrouded by uncritical acceptance of imposed ideas

Semantics and artificial constructs that often find ways into financial reporting system and legal wordings to impose on human engagements, are increasingly turning obnoxious! One such item is the 'Tax Expenditures', defined to include **potential revenue,** 'special provisions within a tax system—such as exemptions, deductions, credits, or deferrals—that allow specific individuals or businesses *to pay less tax* than they *otherwise would.* Ironically, these are considered *"hidden" government expenditures* because *they reduce the total revenue collected* by the government, functioning as a substitute for direct spending programs!

To put it simply, we are being told by the 'tax experts' that the amount the government is not collecting from us, which they could otherwise do, is an 'expenditure' item! The political economy of such constructs as well as the thrives towards erosion of domestic wealth is a subject of separate discourse, not addressed here. I do however strongly feel that a reason-based choice of actions to raise revenue should not entertain such accounting categories. Surely, such potential revenue gains by reducing subsidies deserve critical monitoring and assessment on a regular basis, and ought to be distinguished from 'revenue leakage'. However, terming those as 'expenditure' may be wrongly mixed up with regular government expenditure, especially when a good part of the latter may justifiably be reduced.

6. Defining Taxable Persons and Taxable Income: essential first step to increase revenue

Ambiguities in defining 'taxable persons' (not referring to those belonging to taxable income brackets) and 'taxable income' (normally defined to include all income that originate from economic/laboring activities undertaken within the country) are not precisely defined. To my knowledge, NBR documents do not use the specific term "taxable persons". Rather, such terms as "person" or "assessee" are mentioned in the Income Tax Ordinance; and VAT Act mentions "registered or enlisted person". In its most recent version for the online submission, NBR appears to have borrowed the terms 'resident and ordinarily resident' (ROR), along with 'resident but not ordinarily resident' (RNOR). However, the diaspora (Foreign Citizens of Bangladesh Origin -FCBO, akin to OCI in India), taking shelter under the NRBs (Bangladeshi citizens who are resident in other countries for work or studies, and are presently 'non-resident' in Bangladesh), is amalgamated with RNOR! I understand that the juggling with these words will continue for some time. However, an agency aspiring to apply algorithmic governance, ought to design its database considering all possible categories of taxable persons!

I have presented the case elsewhere and refrain from engaging in detail.[4] One expects precise articulation of the two terms in the tax laws, establishing unique identification in opening bank accounts and for financial transactions using those accounts, coordination with the Immigration & Passport Authority for accessing data on movements across border to make informed decision on residency status. [One expects that interoperability across relevant agencies has been mapped by now.] With distinct classification of Taxable Persons, better designing of tax rates with fewer variation will be possible. Moreover, an objective assessment of Dual Tax Treaties will be possible once NBR has adequate data in its server. Despite it, some of the DTAA were reviewed to assess how the size of individuals and business entities remaining fiscally non-transparent may be reduced and how the revenue size may be increased.

7. Ensuring compliance in paying taxes against rental income

Rent on properties show up prominently in calculation of CPIs but may not have been adequately captured under income tax due to failures in enforcing compliance. The in-house NBR officials as well as external consultants appear to favor awareness programs and departmental assessment of presumptive values based on surveys done by NBR

[4] Issues on dual citizenships, 'residency' and DTTA go beyond personal income and property taxes. My views on those were shared with the NTFRTS, which may be shared on request. I have several writings on dual citizenship, only two of which are mentioned; (i) "Straight talk: The issue of dual citizenship", 25 March 2023, TBS. (ii) "নাগরিকত্ব আইনে দ্বৈত নাগরিক হওয়ার সুযোগ এলো কীভাবে?", কালবেলা, ১৪ সেপ্টেম্বর ২০২৩।

officials. However, such efforts are said to have largely failed in the past. A simple first step towards establishing compliance leading to increased tax revenue, may be as follows:

All establishments whose accounts are audited and which claim paying office/house rent as cost items, ought to (i) pay through bank transfers, and (ii) report the TIN number and names of property owner to whom rents are paid. To facilitate the process, NBR should install an automated sms service for cross-checking the validity of a TIN corresponding to an NID number. One may note that it is now mandatory to record an owner's NID in registering properties. There are thousands of rented bank premises, government and semi-government offices, NGO/MFI premises, project offices and premises of business groups who may be paying large amount on monthly rents, which raise cost and reduce taxable profit. Yet, the reported rents, as far as my independent verification suggests, are higher than market prices and recipient owners may not be reporting the full amount.

Clearly, imposing an algorithmically derived (or presumptive) rental value based on a faulty (and experimental) augmented reality cannot be a better substitute than establishing trust and internal compliance in the system. While the algorithm-based exercise may run parallelly for fine-tuning models and their predictability, NBR needs to have a system in place where scope for compliance is clearly laid out and non-compliance can be verified digitally – such as, by cross-checking rental income reported by a taxpayer and that reported by a tenant (or, a company).

The proposed measures will also reduce Tax Leakage. To illustrate, declaration of TIN of property owners by tenant agencies (government or private) with subsequent follow-ups on tax returns by the owners, will reduce private dealings, reduce the stated cost of the companies/commercial entities, increased their reported profit and thereby increase tax revenue from such sources.

It is believed that there are many earning property income living abroad and not submitting returns or paying taxes on that income by fudging under DTAA and taking advantage of undefined 'taxable person' and 'taxable income'! [An example of Fiscally Non-accountable Entity in the absence of a proper system?]

8. Property-related Taxes

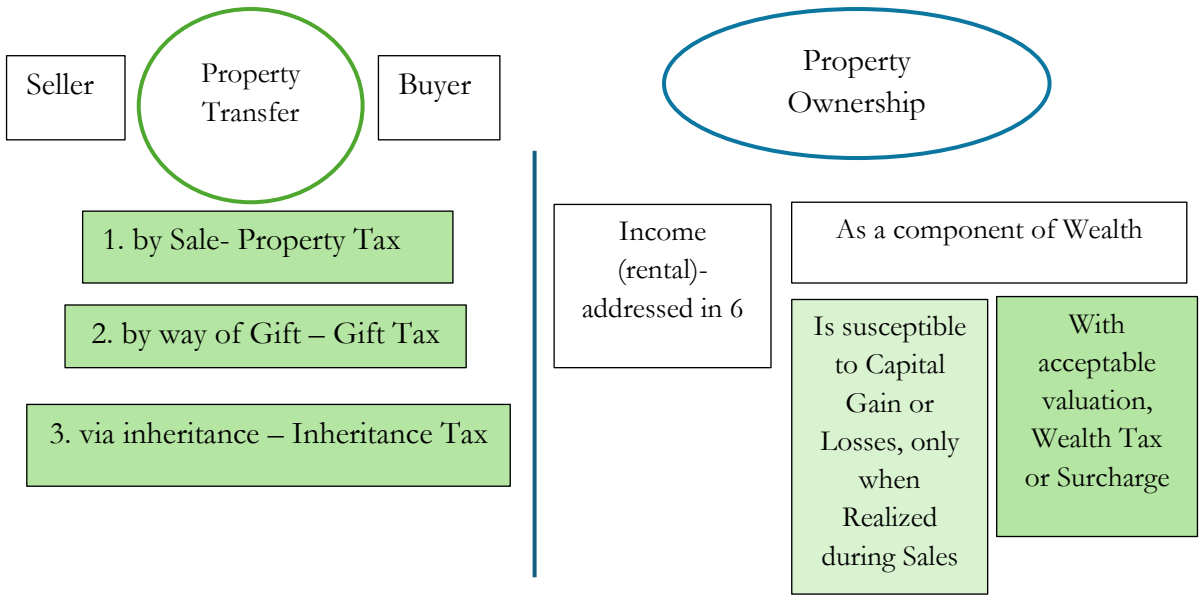
8.1 An Overview

A canvas to frame the various property-related taxes, relevant for NBR Tax Revenue, is sketched below. Rental income from property has been mentioned in Section 7 above.

The focus of the discussion on Property-related taxes is confined to the items identified (colored) in Figure 1 below.

One may note that the tax base is ever expanding as land mass grows, as well as with increases in the incidence of property transfers. Since all three forms of transfers are likely to increase, those hold potential for increased tax revenue. It is also important to recognize that the 'financial tax base', for all three transfers, is reflected in the deed value of those transfers. It has long been recognized that potential revenue is lost ('revenue leakages') due to gross under-valuation in deeds, that also fuel corrupt governance. A feasible route to raising deed values to close proximation of market transactions, that will increase direct tax revenue as well as expand the financial tax base, is discussed at the end of this section.

Figure 1: Property-related NBR Taxes



8.2 Property tax in Bangladesh is commonly meant to be a **tax on transfer of property**[5], primarily by means of sales (1 in above Figure). NBR collects three different types of taxes during sale transfers, AIT, Capital Gain Tax and VAT. Wealth surcharge is considered a proxy instrument that will be replaced once the property valuations reflect market prices. Till such time, capital gains and property income (including rental income) embedded in 'personal income', hold prospect for expansion and so does the potential revenue to be earned from inheritance tax.

[5] We purposively avoid including all taxes having bases rooted in properties (see Table 1 and CPD 2023).

8.2.1 Problems with status quo: For several decades, high tax rates coupled with inertia in the deed value and continued presence of 'black money' in the property market[6], led to persistent divergence between the transacted (market) value and the deed value of a property. This meant increase in the size of 'black money' that either got dissipated (transferred abroad via hundi or spent on conspicuous consumption) or remained active in the market without ever coming under the scanner of the authority (NBR). The practice of under-reporting prices in deed value of properties makes the deed a less attractive instrument as collateral for borrowing. Ironically, wide endorsement of the practice allows unholy alliance od borrower and lenders in the banking system to justify gross anomalies in the valuation of properties and ill record-maintenance of information on loan collaterals!

Previous attempts to 'whiten' black money are alleged to have generated little additional revenue. Even though the sellers of properties have the option to protect their receipts as 'white' upon paying the gain tax, the buyers remain accountable to several authorities to disclose the sources of their income. Thus, the proposal failed to ensure significant increase in revenue for (i) fear of follow-up adversaries by other authorities (such as, ACC), which remained unaddressed, and/or (ii) positive elements among buyers and sellers in the real estate market were not mobilized. Since the number of actors in property market, keen on safeguarding their white money, or in establishing their newly acquired wealth as white, is believed to be on rise, one needs to search for a viable contract between the government (NBR) and the two parties in the property market. Such contracts, linking tax incentives with additional value of a deed, may be dynamically programmed and fine-tuned once data is more readily accessible and amenable to analyses (see further elaboration below).

8.2.2 Proposal to move towards market value of property and reduce the size of unrecorded /untaxed Wealth: Presently there is an assessed value of properties that vary across locations. To encourage voluntary raise in the deed value, assessed price may be considered as the bottom price and a buyer can be given the option to avail the same tax rate for additional amount reported in the deed with an additional 1% to bring the books on past wealth records in order. To keep things in line with the regular practices and avoid discrimination against the honest taxpayers, one may choose to spread the wealth accumulation over past (say) ten years for assessing regular tax obligations so

[6] Funds in private hands could continue to remain outside the domain of the (NBR) authority's scanner. This also had

that the past tax burden can be minimized. One may go further and expect NBR to provide the service for such assessments prior to actual property transfers.

If implemented, the divergence between deed value and transaction value will continue to diminish, and moral dilemmas will reduce and the space for arbitrary assessment by ill-motivated officials/ intermediaries is expected to shrink.

8.3 Gift tax and Inheritance tax (or estate duty): The other two means of property transfers are by means of gift and inheritance. Currently the **gift tax** is in place that contributes insignificant revenue, both due to little or no enforcement and exemptions of transfers that constitute significant portion of gifts. No new measure is proposed beyond those suggested in the Budget 2025-26.

Currently there is no **inheritance tax (or estate duty)** in Bangladesh. Thus, there is no publicly available data on such transfers either. Revenue potential of inheritance tax, especially on urban properties, is believed to be very high, and needs to be harnessed. The prime time to introduce an inheritance tax that could deter/reduce transfer of resources abroad through hundi system may have been missed. But it is never too late to introduce an inheritance tax on both equity and efficiency grounds. A slab-based tax may be made mandatory for all inheritors at the stage of Bonton Nama registration or during issuance of Inheritance certificate. Ideally, this needs to be implemented in sequence – beginning with the city corporations[7], followed by a review prior to implementing it at municipality levels.

8.4 Taxes on property, as a component of wealth, takes the form of **holding tax**, which is under the jurisdiction of local government (union parishad, municipalities and city corporations). Other than noting that all these taxes (including VAT and excise duties), irrespective of the fund-receiving authority, come from the same pocket. Thus, it is important to ensure right balance in the composition (across various authorities) within a finite bound. That calls for closer coordination among various tax collection agencies and strict monitoring to regulate fee/toll collections by the CBOs.[8]

8.5 Wealth tax, wonder if it is an escape route to hide failures of the responsible authority!

[7] One may even consider confining initially to properties that were leased out by the government (plot allocation from RAJUK, CDA, KDA, etc.).

[8] In many wealthy neighborhoods, local community-based societies (CBSs) collect fees from residents in the name providing services that ideally are the responsibilities of the city corporation! A better economic governance under the Ministry of Finance calls for close cooperation and coordination among NBR, ;ocal government and CBSs.

A few references to my earlier writings have been noted (footnote 2)[9]. Prior to discussing wealth tax, it is important to understand what one means by 'wealth'. More specifically, it is necessary to ascertain how the wealth of an individual or organization will be measured in practice. When one considers tangible assets, such as land or buildings/apartments, 'holding tax' is the commonly observed vehicle to raise revenue. The latter is however under the jurisdiction of the local government (city corporations, municipalities or union parishads). The fact that NBR has no control over such revenue, does not justify innovating a new instrument in the guise of 'wealth tax'. As an alternative to running after the elusive 'wealth', one may track financial wealth (in banks, shares and businesses) along with the observables (physical assets)!

The second way to measure wealth is the value of net assets as stated in tax returns. If the NBR had paid close attention to this matter for the last two decades, some degree of consistency between the value stated in the returns and the market value would have been established by now, which unfortunately has not happened. Imposing wealth tax based on the value of assets stated in the tax returns would be misleading and unfair to honest taxpayers for several reasons -

(1) Those who evade taxes have less declared income and less accumulated wealth. Therefore, it is natural for a dishonest taxpayer to have a lower value of his/her assets than that of an honest taxpayer.
(2) Many have not declared their income in full and have smuggled it abroad. Their assets will not be visible within the country. However, unilateral taxation of taxpayers who have built up assets in Bangladesh will have a negative impact on economic progress.
(3) In a country where there is no good insurance system to ensure life and livelihood in old age, it is natural to build up assets in early life. Before blaming the collective failure on the accumulated wealth of honest taxpayers, it is necessary to find ways to collect taxes based on other proxies such as 'wealth equity'.

The third path to wealth assessment is an algorithmic decision making. That is, using numerical models to estimate the value of one's wealth based on some initial data. It is

[9] Interested readers may look for these at https://ergonline.org/সম্পদ-কর-জানা-কথার-পুনরাব/ and https://ergonline.org/সম্পদ-কর-যৌক্তিকতার-সন্ধ/

necessary to embark on this path for the future - but its unanalytical application without fulfilling its prerequisites could usher in the 'Tughlaqi' era.

9. A shift in Tax collection policy:

Moving away from directly reaching individuals to having the employment (and contract-giving) agencies as the first primary points of contact. This will be more effective to expand the coverage of the base. Reportedly, surveys of enterprises are occasionally undertaken by NBR, which may not necessarily find their ways into the central data system. Thus, the scope of misuse remains, promoting predatory behavior in individual officials. A Tobin-like universal tax may be more efficiently imposed if the employment (and contract-giving) agencies are made to report. This however calls for efficient in-house capacity to store and process data, abandoning the requirement of submitting hard copies.

Proposal:

(i) Income tax department ought to be informationally empowered by having its own server and data analysis unit.

(ii) Data on potential employers and self-employed persons are available with the Ministries and other government, semi-government and autonomous entities; City Corporations, municipalities and Union Parishads (Trade Licenses) RJSC, BIDA, economic zone authorities, Bangladesh Bank, etc. These should ideally find a place in the ITD-based central server; and a roadmap for early implementation of enlisting all income earners (with eTIN) can be made – initially those earning beyond a threshold.

10. Regaining the trust of the taxpayers:

NBR may like to find a right balance between regaining trust of people through controlled contacts and going online with professionalism to establish trust in the long term. The transition requires meticulous manpower planning, including placements, fresh recruitments of cadres for future, and compassionate filtering of redundant.

Severe exemplary punishment to deviants among NBR officials may boost public trust on the organization. Along with it, public statement (by NBR) on stern measures to be taken against NBR officials attempting to misuse power to benefit from CSR funds of private companies or by compelling agencies to employ, will help NBR to establish taxpayers' trust on the organization.

11. Data driven Future:

It is extremely important to design tax system to make way for network-based data driven assessment, audits and design of tax structure. This was well accepted in the group, and yet, the final draft is found to have compromised with the traditional way of doing things in at least two important instances.

An IT network-based data driven approach would call for drawing time-bound roadmaps on connecting important information hubs and mechanisms to promote voluntary compliance. Falling back to traditional approaches may jeopardize efforts to establish trust.

Protection of privacy, roadmap for HR development without falling prey to promotion demands from incompetent insiders, strong analytical unit, separate nurturing of income tax and VAT/CD for data driven system development, etc. are some of the other issues that deserve to be highlighted.

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